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**QUINTE MILK PRODUCTS,**  
*Limited*

and its wholly owned subsidiary,  
**QUINTE CREAMERIES, LIMITED**



**Forty-First  
Annual Report  
and  
Financial Statements**

for the fiscal year ended  
**DECEMBER 31st, 1969**



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NOTICE OF  
ANNUAL AND SPECIAL GENERAL MEETING

**T**AKE NOTICE that the Annual and Special General Meeting of the Shareholders of the Company will be held in Toronto, Ontario, at the Simpson Tower, Private Dining Room No. 2, 8th Floor, 401 Bay Street, on Friday, the 26th day of June, 1970, at the hour of 10:00 o'clock in the forenoon, for the purpose of receiving and considering the Report of the Directors of the Company and the Consolidated Balance Sheet, Consolidated Statement of Income and Retained Earnings, Consolidated Statement of Source and Application of Funds and Auditors' Report for the past year, electing Directors for the ensuing year, the appointment of Auditors, and the transaction of such other business as may properly come before the Meeting.

ALSO TAKE NOTICE that this Meeting is being held for the purpose of receiving and considering a Special Resolution passed by the Board of Directors authorizing the application for Supplementary Letters Patent changing the name of the Company to "Quinte-Canlin Limited", and a Special Resolution authorizing the change of the head office location to Suite 2106, 401 Bay Street, Toronto, and the transaction of such other business as may properly come before the Meeting.

DATED this 26th day of May, 1970.

By order of the Board,

R. F. WRIGHT,  
Secretary.





# DIRECTORS' REPORT

*For the year ended December 31st, 1969*

TO THE SHAREHOLDERS:

May 26th, 1970

A number of important changes have taken place in your Company since the last Annual Report. On September 1, 1969, control of the Company was brought back to Canada by a small group of Canadian investors purchasing the shares formerly held by Horlicks Limited of England.

As noted in the previous year's report, production at Wellington has been changed from casein and lactose to cheese, skim milk powder and whey powder. This changeover was completed in July, of 1969. The technical problems of production have been resolved to yield high quality products, but the operation has not proved economically sound. The Wellington plant has lost money since 1965, and total loss for 1969 was \$109,568.

In the last few months, a comprehensive study has been made of Wellington operations. It is now clear that the present milk supply must be doubled before operations can be viable. Strenuous efforts have been made to obtain additional milk, by a direct approach to the Milk Marketing Board and by attempting to purchase other smaller processors whose supply could be diverted to Wellington. This program has so far had only limited success. Changes have been made in product composition to achieve higher margins, and are bringing about improvement. However, a solution has yet to be found which will allow operations to be sustained into the low milk period of next fall.

On February 25, 1970, Quinte's Class A shares were subdivided and reclassified so as to give two Common and three Class A shares for each Class A share outstanding and the Common shares were split five for one.

On April 6, 1970, your Company purchased control of Canlin Limited from Domco Industries Limited in Montreal. Canlin is a processor of vegetable oils, industrial and edible, and a manufacturer of a range of industrial chemicals. It has a continuing history in Montreal since 1901. In the fiscal year ending April 30, 1969, Canlin sales were \$7,633,000, net income of \$106,831 was realized from operations, and total net after taxes was \$151,714. The controlling interest was purchased by your Company for \$566,730, two-thirds in cash and one-third in a one-year 8% promissory note. This purchase was financed in part by issue of \$300,000, 8¼% subordinated debentures.

The Canlin purchase brings to Quinte a strong financial position and a young management group whose efforts are now being felt throughout the Company. Quinte has since made a share exchange offer to the Canlin minority shareholders of ten Quinte A shares for each outstanding common share of Canlin. During February, 1970, the Company entered into letter agreements with certain minority shareholders of Canlin to exchange approximately 7,000 additional shares (approximately 28%) on that basis. Assuming that 80% ownership of Canlin is achieved through the exchange of shares, there will be book value of approximately \$3.50 behind each common and Class A Quinte share outstanding, of which \$2.75 is in working capital. In recognition of the new character of the Company, it is proposed to change the name from Quinte Milk Products Ltd. to Quinte-Canlin Ltd.

Your Board's urgent priority of business is to find ways and means of stopping the losses being suffered by the Wellington plant. Canlin's operations are being pursued vigorously and indications are that sales for the current year will be ahead of last year.

We are giving serious study to the possible acquisition of two profitable companies which would fit into our pattern of growth, and we are hopeful that a specific proposal will be developed soon.

On behalf of the Board,

J. O. McCutcheon,  
President.

Toronto, Ontario.  
May 26th, 1970.



# QUINTE MILK P

(Incorporated unde

and its wholly

## CONSOLIDATED BALANCE SHEET, DECEMBER 31, 1969

(with comparative figures at December 31, 1968)

ASSETS		1969	1968
CURRENT ASSETS			
Cash .. .. .		\$ 853	\$ 25,297
Guaranteed investment certificates .. .. .			150,000
Accounts receivable .. .. .		44,882	90,725
Inventories of finished goods at estimated cost and raw materials and supplies at the lower of cost and replacement cost .. .. .		53,553	53,968
Prepaid expenses .. .. .		2,763	5,167
		<u>102,051</u>	<u>325,157</u>
FIXED ASSETS (note 1)			
Land, buildings and equipment .. .. .		1,092,411	1,055,795
Less accumulated depreciation .. .. .		702,708	707,852
		<u>389,703</u>	<u>347,943</u>
PROCESSES AND LEASES, at nominal value .. .. .		1	1
		<u>\$ 491,755</u>	<u>\$ 673,101</u>
LIABILITIES			
CURRENT LIABILITIES			
Bank advances secured by accounts receivable .. .. .		\$ 5,162	
Accounts payable and accrued liabilities .. .. .		75,872	\$ 55,562
Principal due within one year on long-term debt .. .. .		29,000	25,000
		<u>110,034</u>	<u>80,562</u>
LONG-TERM DEBT (note 4) .. .. .		104,550	212,000
SHAREHOLDERS' EQUITY			
CAPITAL STOCK (note 5)			
Authorized			
50,000 Participating Class A non-voting shares without par value carrying a non-cumulative preferential dividend up to 60¢ per share per annum			
10,000 Common shares without par value			
Issued			
50,000 Class A shares) .. .. .		244,843	244,843
9,625 Common shares) .. .. .			
RETAINED EARNINGS .. .. .		26,128	135,696
CONTRIBUTED SURPLUS, portion of Ontario Development Corporation Debenture forgiven .. .. .		6,200	
		<u>277,171</u>	<u>380,539</u>
		<u>\$ 491,755</u>	<u>\$ 673,101</u>

Approved by the Board:

J. O. McCUTCHEON, Director

R. A. LENNOX, Director

# PRODUCTS, Limited

(Incorporated under the laws of Ontario)

A wholly owned subsidiary

## CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

YEAR ENDED DECEMBER 31, 1969

(with comparative figures for 1968)

	1969	1968
Sales .. .. .	\$1,465,302	\$1,551,683
Cost of goods sold .. .. .	1,150,898	1,160,387
Gross profit .. .. .	<u>314,404</u>	<u>391,296</u>
Expenses		
Manufacturing .. .. .	249,379	283,328
Merchandising .. .. .	48,403	37,284
Administrative .. .. .	25,977	25,667
	<u>323,759</u>	<u>346,279</u>
Operating profit (loss) .. .. .	<u>(9,355)</u>	<u>45,017</u>
Other income		
Interest .. .. .	4,107	8,487
Rent .. .. .	2,400	2,400
Profit on sale of fixed assets .. .. .	5,334	4
	<u>11,841</u>	<u>10,891</u>
	<u>2,486</u>	<u>55,908</u>
Other expenses		
Management and directors' remuneration .. .. .	25,975	27,833
Interest on long-term debt .. .. .	11,359	10,750
Depreciation (notes 1 and 2) .. .. .	74,720	71,616
Retirement allowance .. .. .		5,670
	<u>112,054</u>	<u>115,869</u>
LOSS FOR THE YEAR .. .. .	<u>109,568</u>	<u>59,961</u>
RETAINED EARNINGS AT BEGINNING OF YEAR .. .. .		
As previously reported .. .. .	154,627	195,657
Adjustment of prior year's depreciation (note 2) .. .. .	18,931	
As restated .. .. .	<u>135,696</u>	
RETAINED EARNINGS AT END OF YEAR .. .. .	<u>\$ 26,128</u>	<u>\$ 135,696</u>

NB note (2)



# QUINTE MILK PRODUCTS, Limited

and its wholly owned subsidiary

## CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEAR ENDED DECEMBER 31, 1969

(with comparative figures for 1968)

	1969	1968
<b>SOURCE OF FUNDS</b>		
Operations .. .. .		
Depreciation which does not involve current funds .. .. .		\$ 71,616
Deduct loss for the year .. .. .		59,961
		<u>11,655</u>
Sale of fixed assets .. .. .	\$ 13,973	1,371
Life insurance, cash surrender value .. .. .		5,670
Proceeds from long-term debt .. .. .	85,000	179,000
	<u>98,973</u>	<u>197,696</u>
<b>APPLICATION OF FUNDS</b>		
Operations		
Loss for the year .. .. .	109,568	
Deduct depreciation which does not involve current funds .. .. .	74,720	
	<u>34,848</u>	
Additions to fixed assets .. .. .	130,453	186,387
Life insurance, cash surrender value .. .. .		200
Reduction in long-term debt .. .. .	186,250	
	<u>351,551</u>	<u>186,587</u>
INCREASE (DECREASE) IN WORKING CAPITAL POSITION .. .. .	(252,578)	11,109
WORKING CAPITAL AT BEGINNING OF YEAR .. .. .	244,595	233,486
WORKING CAPITAL (DEFICIENCY) AT END OF YEAR .. .. .	<u>\$ (7,983)</u>	<u>\$244,595</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1969

### 1. FIXED ASSETS

							1969		1968	
							Asset Value	Accumulated Depreciation	Asset Value	Accumulated Depreciation (as restated)
Land .. .. .	..	..	..	..	..	\$ 14,275		\$ 14,275		
Land improvements .. .. .	..	..	..	..	..	2,234	\$ 493	2,234	\$ 421	
Buildings .. .. .	..	..	..	..	..	196,134	88,498	157,415	82,344	
Machinery and equipment .. .. .	..	..	..	..	..	815,114	560,155	806,599	565,984	
Automotive equipment .. .. .	..	..	..	..	..	64,654	53,562	75,272	59,103	
							<u>\$1,092,411</u>	<u>\$702,708</u>	<u>\$1,055,795</u>	<u>\$707,852</u>

Fixed assets are valued at depreciated replacement value as per appraisal of The Canadian Appraisal Company, Limited dated September 29, 1928, with subsequent additions at cost.

The method of charging depreciation is on the diminishing balances at maximum rates as allowed by the Department of National Revenue.

### 2. ADJUSTMENT OF PRIOR YEAR'S DEPRECIATION

In 1969, the Company followed the policy of charging depreciation as set out in note 1 for the full year regardless of date of purchase of the asset.

In 1968, major equipment acquired during that year and put into production in the middle of that year was depreciated at normal rates for one-half of the year only.

The 1968 figures have been restated from amounts previously reported to reflect a policy consistent with 1969 and prior years. The result is additional depreciation charges for 1968 of \$18,931 and a greater loss for that year of the same amount.

NB  
Loss



# QUINTE MILK PRODUCTS, Limited

and its wholly owned subsidiary

## Notes to Consolidated Financial Statements—Continued

### 3. INCOME TAXES

Loss carry forward on a tax filing basis has been revised by claiming capital cost allowances of \$69,273 in excess of amounts previously claimed.

	1969	1968
Loss carry forward on a tax filing basis, deductible in determining income taxes up to:		
1971 .. .. .	\$ 47,614	\$ 47,614
1972 .. .. .	27,433	27,433
1973 .. .. .	57,589	57,589
1974 .. .. .	111,530	
	<u>244,166</u>	<u>132,636</u>
Excess of undepreciated capital cost over net book value of depreciable fixed assets	2,419	4,381
	<u>\$246,585</u>	<u>\$137,017</u>

The tax effect of this \$246,585 (\$137,017 in 1968) has not been recorded in the accounts.

### 4. LONG-TERM DEBT

	1969	1968
Debenture, Ontario Development Corporation, non-interest bearing, forgivable, at the option of the lender, \$6,200 annually for the next four years (1968, five years) with the balance forgivable in 1974 .. .. .	\$ 55,800	\$ 62,000
8¼% Debenture, Bank of Nova Scotia, repayable \$7,250 quarterly .. .. .	77,750	
Loan, Bank of Nova Scotia .. .. .		175,000
	<u>133,550</u>	<u>237,000</u>
Less principal included in current liabilities .. .. .	29,000	25,000
	<u>\$104,550</u>	<u>\$212,000</u>

### 5. SUBSEQUENT EVENTS

(a) At a special general meeting of shareholders held on February 11, 1970, the shareholders approved an application to the Lieutenant-Governor of the Province of Ontario requesting permission to:

1. change the name of the Company
2. extend the objects of the Company
3. subdivide the common shares
4. subdivide and reclassify the Class A shares
5. increase the authorized capital by creating an additional 350,000 common shares and 350,000 Class A shares

The effect of the above will be to provide the Company with authorized capital of 500,000 common shares and 500,000 Class A shares and issued and fully paid capital of 148,125 common shares and 150,000 Class A shares.

(b) The Company has agreed in principle to issue a 10-year, 8¼% debenture for \$300,000 having attached thereto 80,000 share purchase warrants which, after the subdivision referred to in (a) become 150,000 Class A and 250,000 common share purchase warrants exercisable until 1975 at \$1.40 per share and thereafter until 1980 at \$2.00 per share.

(c) Subject to certain conditions the Company is undertaking to acquire an approximate 80% equity interest in the common shares of Canlin Limited.

### 6. OTHER STATUTORY INFORMATION

	1969	1968
Remuneration of directors and senior officers (as defined by The Corporations Act) ..	<u>\$46,883</u>	<u>\$45,762</u>

## AUDITORS' REPORT

TO THE SHAREHOLDERS OF  
QUINTE MILK PRODUCTS, LIMITED.

We have examined the consolidated balance sheet of Quinte Milk Products, Limited and its wholly owned subsidiary as at December 31, 1969, and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1969, and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after giving effect in that year to the change in the basis of charging depreciation outlined in note 2 to the financial statements.

Kingston, Ontario.  
February 13, 1970.

THORNE, GUNN, HELLIWELL & CHRISTENSON,  
Chartered Accountants.



## INFORMATION CIRCULAR

This Information Circular is furnished in connection with the solicitation by Management of proxies to be voted at the Annual and Special General Meeting of the Shareholders of Quinte Milk Products, Limited to be held on June 26th, 1970. Proxies may also be solicited by Directors and/or Officers of the Company at nominal cost. The Company will bear the cost of solicitation of proxies by Management.

### APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the enclosed form of proxy are Directors of the Company. A SHAREHOLDER DESIRING TO APPOINT SOME OTHER PERSON TO REPRESENT HIM AT THE MEETING MAY DO SO EITHER BY INSERTING SUCH PERSON'S NAME IN THE BLANK SPACE PROVIDED IN THE FORM OF PROXY OR BY COMPLETING ANOTHER FORM OF PROXY AND, IN EITHER CASE, DELIVERING THE COMPLETED PROXY TO THE SECRETARY OF THE COMPANY.

A Shareholder who has given a proxy may revoke it either (a) by signing a proxy bearing a later date and delivering it to the Secretary of the Company, or (b) as to any matter on which a vote shall not already have been cast pursuant to the authority conferred by such proxy, by signing written notice of revocation and delivering it to the Secretary of the Company or the Chairman of the meeting.

### EXERCISE OF DISCRETION BY PROXY

The persons named in the enclosed form of proxy will vote the shares in respect of which they are appointed in accordance with the direction of the Shareholders appointing them. IN THE ABSENCE OF SUCH DIRECTION, SUCH SHARES WILL BE VOTED FOR THE APPROVAL OF THE DIRECTORS' REPORT AND FINANCIAL STATEMENTS, FOR THE ELECTION OF DIRECTORS, THE APPOINTMENT OF AUDITORS AND OTHER BUSINESS TO BE ACTED UPON AS STATED UNDER THOSE HEADINGS IN THIS CIRCULAR. The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the Notice of Meeting, and with respect to other matters which may properly come before the meeting. At the time of printing this circular, the Management of the Company knows of no such amendment, variation or other matters to come before the meeting other than the matters referred to in the Notice of Meeting.

### VOTING SHARES AND PRINCIPAL HOLDERS THEREOF (INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS)

On February 28th, 1970, the Company had outstanding 150,000 participating Class A non-voting shares without par value carrying a non-cumulative preferential dividend of up to 12¢ per share per annum and 148,125 Common shares without par value. Only the holders of the Common shares are entitled to vote at the meeting of Shareholders, each Common share carrying the right to one vote. The Principal Shareholder of the Company is Forum Financial Corporation Limited which as of March 12th, 1970, held 38,472 Class A shares representing approximately 26% of the outstanding Class A shares, and 55,653 Common shares representing approximately 38% of the outstanding Common shares.

Mr. J. O. McCutcheon, President of the Company, is a Director and Shareholder of Forum. Mr. McCutcheon is also the President of Canlin Limited and owns 280 of the 25,000 issued and outstanding shares in the capital stock of Canlin Limited. Mr. McCutcheon has tendered his 280 shares pursuant to a take-over offer which was sent by the Company to all of the minority shareholders of Canlin Limited in April of 1970, offering to exchange 10 Class A shares of the Company for each Canlin Limited share which was tendered.

Frederick A. Litwin, the Vice-President of the Company, beneficially owns 73.5% of all of the outstanding shares in the capital of Forum. As at March 12th, 1970, the Directors and Senior Officers of the Company, as a group, owned beneficially either directly or indirectly (through ownership of shares of Forum), 47,869 Common shares of the Company and 33,089 Class A shares representing approximately 32% of the outstanding Common shares and 22% of the outstanding Class A shares of the Company. Apart from the above, the Directors and Senior Officers of the Company do not know of any person or company beneficially owning, directly or indirectly, more than 10% of the Class A or 10% of the Common shares of the Company. Shareholders of record holding Common shares of the Company at the time of the meeting will be entitled to attend and vote at the meeting.



## ELECTION OF DIRECTORS

The Board consists of five (5) Directors and the following are Management's nominees for election to the Board with information concerning them:

Names of Directors:	Principal Occupation or Employment during past five years and organization in which such employment is carried on:	Director Since:	Shares owned beneficially at May 26th, 1970:
J. O. McCUTCHEON	President and Director. Professor and Chairman, Department of Civil Engineering and Applied Mathematics, McGill University.	1969	5 Common
F. A. LITWIN	Vice-President and Director. President of Erie Diversified Industries Limited since 1968, and prior thereto President of A. C. McLean & Company Limited, Broker-Dealer.	1970	3 Class A 2 Common
R. A. LENNOX	Secretary, General Manager and Director.	1970	5 Common
W. R. SALTER, Q.C.	Director. Senior Partner, Salter, Reilly, Jamieson & Apple, Barristers & Solicitors, Toronto.	1930	150 Class A 160 Common
J. J. O. GRAVEL	Director. Trust Administrator of the Estate of C. E. Gravel.	1970	1 Common

The term of office of each Director elected will be from the date of the meeting at which he is elected until the Annual Meeting next following or until his successor is elected or appointed.

Proxies received pursuant to this solicitation will be voted for the election of the above-named nominees. If for any reason any such nominee should not be available for election, such proxy will be voted in favour of the remaining nominees and may be voted for a substitute nominee or nominees in the place of those who are not candidates. Management has no reason to believe that any of these nominees will fail to be candidates at the Meeting and does not at this time have any substitute for such nominees.

## REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration paid by the Company and its Consolidated subsidiary to the Directors and Senior Officers of the Company during the year ended December 31st, 1969, was \$46,883.

## APPOINTMENT OF AUDITORS

The persons named in the enclosed form of Proxy intend to vote for the reappointment of Thorne, Gunn, Helliwell & Christenson, Chartered Accountants, as Auditors of the Company to hold office until the next Annual Meeting of Shareholders and to authorize the Directors to fix their remuneration. The said firm and its predecessor, Thorne, Mulholland, Howson & McPherson, have been Auditors of the Company for more than five years.

## OTHER MATTERS WHICH MAY COME BEFORE THE MEETING

The Management knows of no other matters to come before the Annual General Meeting of Shareholders other than as set forth in the Notice of Meeting. However, if other matters which are not known to the Management should properly come before the Meeting, the accompanying proxy will be voted on such matters in accordance with the judgment of the person or persons voting the proxy.

By Order of the Board of Directors,

May 26th, 1970.

R. F. WRIGHT,  
Secretary.

# QUINTE MILK PRODUCTS, LIMITED

*(Incorporated under the laws of the Province of Ontario March 1st, 1928)*

HEAD OFFICE AND PLANT ..... WELLINGTON, ONTARIO

## OFFICERS

J. O. McCUTCHEON ..... *President*  
F. A. LITWIN ..... *Vice-President*  
R. F. WRIGHT ..... *Vice-President (Finance) and Secretary-Treasurer*  
R. A. LENNOX ..... *General Manager*

## DIRECTORS

J. O. McCUTCHEON ..... MONTREAL, QUEBEC  
F. A. LITWIN ..... TORONTO, ONTARIO  
R. A. LENNOX ..... PICTON, ONTARIO  
W. R. SALTER ..... TORONTO, ONTARIO  
J. J. O. GRAVEL ..... MONTREAL, QUEBEC

*Shares Listed - The Toronto Stock Exchange - October 17, 1944*

Participating Class "A" Non-Voting Shares - QMPA

Common Shares - QMP

## Transfer Agents and Registrars

CANADA PERMANENT TRUST COMPANY  
1901 YONGE STREET  
TORONTO

GUARANTY TRUST COMPANY OF CANADA  
366 BAY STREET  
TORONTO

## Bankers

BANK OF NOVA SCOTIA

BANK OF MONTREAL

## Auditors

THORNE, GUNN, HELLIWELL & CHRISTENSON  
KINGSTON



## QUINTE MILK PRODUCTS, LIMITED

SEP 1 1970

## INFORMATION CIRCULAR

## SOLICITATION OF PROXIES

This Information Circular is furnished in connection with the solicitation by the Management of QUINTE MILK PRODUCTS, LIMITED (the Company) of proxies to be used at the General Meeting of the Common Shareholders of the Company to be held at the time, place, and for the purposes set forth in the accompanying Notice of Meeting and any adjournments thereof. It is expected that solicitation will be primarily by mail. Proxies may also be solicited personally by regular employees of the Company at nominal cost. The cost of solicitation by Management will be borne by the Company.

## APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the enclosed form of proxy are officers of the Company. EVERY SHAREHOLDER HAS THE RIGHT TO APPOINT A PERSON OF HIS CHOICE (WHO MUST BE A SHAREHOLDER OF THE COMPANY) TO ATTEND AND ACT FOR HIM AND ON HIS BEHALF AT THE GENERAL MEETING OF SHAREHOLDERS INSTEAD OF THE TWO PERSON DESIGNATED IN THE FORM OF PROXY. If any shareholder so chooses, the name of the person to be appointed should be inserted in the blank space following the words "JOHN OLIVER McCUTCHEON, the President of the Company, whom failing, RAYMOND FRANK WRIGHT, the Secretary-Treasurer of the Company," which words should be stricken and the change initialled by the shareholder.

A shareholder who has given a proxy may revoke it either (a) by signing a proxy bearing a later date and delivering it to the Secretary of the Company, or (b) as to any matter on which a vote shall not already have been cast pursuant to the authority conferred by such proxy, by signing written notice of revocation and delivering it to the Secretary of the Company or the Chairman of the meeting, or (c) by attending and voting personally. No matters other than those stated in the attached Notice of Meeting are known to be in prospect at the meeting, but if any such other matters should arise, proxies will be voted in accordance with the discretion of the individual proxies.

## EXERCISE OF DISCRETION BY PROXIES

The persons named in the enclosed form of proxy will vote the common shares in respect of which they are appointed in accordance with the direction of the shareholders appointing them. IF GIVEN TO MANAGEMENT AND IN THE ABSENCE OF SUCH DIRECTION, SUCH COMMON SHARES WILL BE VOTED FOR THE APPROVAL OF THE RESOLUTION AS SET OUT IN THE NOTICE OF MEETING AS ITEM (A).

The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments to or variations of matters identified in the Notice of Meeting and with respect to other matters which may properly come before the meeting.

#### VOTING SHARES AND QUORUM

Shareholders of record of common shares at the time of the holding of the meeting will be entitled to one vote for each share held. As at July 20th, 1970, 148,125 common shares without par value were issued and outstanding.

A quorum at meetings of common shareholders consists of 3 shareholders present in person and each entitled to vote thereat. A simple majority of those voting at the meeting in person or by proxy shall carry the Resolution.

The principal shareholder of the Company is Forum Financial Corporation Limited which as of August 24th, 1970 held 55,653 common shares representing approximately 38% of the outstanding common shares. Mr. Frederick A. Litwin, the Vice-President of the Company, beneficially owns 73.5% of all of the outstanding shares in the capital stock of Forum.

INSIDERS (AS DEFINED UNDER THE SECURITIES ACT, 1966) OF THE COMPANY AND CANLIN WILL REFRAIN FROM VOTING AT THE MEETING CALLED FOR THE PURPOSE OF CONSIDERING THE TRANSACTION.

#### PARTICULARS OF MATTERS TO BE ACTED UPON

Shareholders are asked to confirm the Resolution attached hereto as Appendix "A" authorizing the Company's subsidiary, Canlin Limited, to purchase a majority interest in Erie Diversified Industries Limited from Mr. Frederick A. Litwin.

Erie, a public company operating through a number of subsidiaries, is basically oriented towards the manufacture and distribution of furniture, furnishings and fabrics. Both common and Class "A" preference shares of Erie are listed on The Toronto Stock Exchange and have this year been trading in the \$13 1/4 to \$5.00 range. Consolidated sales for the year ending December 31st, 1969 were \$7,136,384.

As set out in the said Resolution contained in Appendix "A" and as further set out in the Agreement of Purchase and Sale dated the 31st day of July, 1970 (a copy of which agreement is available for inspection prior to the meeting during normal business hours at the head office of the Company, Suite 2106, 401 Bay Street, Toronto 103, Ontario) the purchase price for the majority interest is \$635,000.00 of which \$250,000.00 shall be paid by the closing of the transaction and the balance of \$385,000.00 shall be secured by a 10 year, 8 1/2% convertible, redeemable, subordinated debenture of Canlin Limited.



Pursuant to the terms of the Agreement, Mr. Litwin has agreed to waive his rights to not less than 75% of the interest payable under the terms of the debenture for 5 years following the completion of the transaction.

The debenture shall be convertible at the option of the Vendor into equal numbers of common and Class "A" shares of the Company (Quinte) at a conversion rate of \$4.50 per share (common or Class "A") after 3 years from the closing of the transaction. (i.e. 1 common share and 1 Class "A" share for each \$9.00 principal amount of debenture).

The Company is guaranteeing the obligations of Canlin Limited pursuant to the terms of the said agreement, including all the terms of the debenture and shall make the appropriate number of common and/or Class "A" shares of the Company available for conversion under the terms of the debenture.

The acquisition by Canlin Limited of the majority interest in Erie Diversified Industries Limited will not adversely affect the future operations of Canlin Limited or the Company. Historically, it has always been the policy of Canlin Limited to invest excess capital in securities of other companies. The \$250,000.00 to be paid by the closing of the transaction will come out of excess working capital of Canlin Limited, which funds are not required for short term operating purposes. Similarly, the payment of the balance due in accordance with the terms of the debenture described in Appendix "A" will not affect the Company's current working position and operations nor the current working position and operations of Canlin Limited and Canlin and the Company will continue with adequate working capital.

Between May 21st, 1970 to the date hereof, Canlin purchased 9,650 common shares and 7,450 Class "A" shares of Erie Diversified Industries Limited through the facilities of The Toronto Stock Exchange for \$101,063.00. Canlin also purchased \$70,000.00 principal amount of 8% Subordinated Convertible Redeemable Sinking-Fund Debentures of Erie Diversified Industries Limited, convertible at the rate of 80 Class "A" shares for each \$1,000.00 principal amount of Debenture at any time before the close of business on October 1st, 1979; the debentures were purchased through a member of The Toronto, Montreal and Canadian Stock Exchanges for \$45,500.00. Of the foregoing common shares, 5,500 were purchased from the direct and indirect holdings of Mr. Litwin and 4,000 were purchased from Sakfield Mines & Investments Limited, a public company in which Mr. Litwin holds an approximate 64% interest. Of the foregoing Class "A" shares, 7,000 were purchased from the said Sakfield Mines & Investments Limited. Of the foregoing debentures, \$45,000.00 principal amount were purchased from the said Sakfield Mines & Investments Limited and the remaining \$25,000.00 principal amount were purchased from Morton Litwin, a director of Canlin Limited.

#### INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

On September 2nd, 1969 Forum Financial Corporation Limited ("Forum") purchased a controlling interest in the Company from Horlicks

Limited, Slough, England and as part of the transaction Forum undertook to raise \$300,000.00 for the Company.

By an Agreement dated September 2nd, 1969 and amended March 25th, 1970 Punta Funding Corporation Limited ("Punta") agreed to purchase and the Company agreed to sell \$300,000.00 aggregate principal amount of subordinated, redeemable, sinking-fund debentures bearing interest at the rate of 8 1/4% per annum and 400,000 share purchase warrants as presently constituted consisting of 250,000 common and 150,000 Class "A" share purchase warrants for an aggregate purchase price of \$300,000.00.

This transaction closed on April 16th, 1970 and in July, 1970 Grant Johnston Limited, acting as Underwriter, purchased from Punta and made an offering to the public of part of these securities in Ontario and Quebec pursuant to a prospectus dated June 9th, 1970 which was filed with the Ontario and Quebec Securities Commissions.

Under an Agreement dated February 2nd, 1970 the Company agreed to acquire from Domco Industries Limited, of Montreal, 50% of the outstanding shares of Canlin Limited, the head office of which is also located in Montreal. On April 7th, 1970 the Company completed the Canlin purchase and subsequently made a take-over offer dated April 20th, 1970 to all minority shareholders of Canlin to exchange 10 Class "A" shares (as subdivided) of the Company for each Canlin share held.

Frederick A. Litwin is the President, director and principal shareholder of Punta and Forum, as well as a director and Vice-President of the Company. Mr. John Oliver McCutcheon, President and director of the Company is a director and shareholder of Forum and President and director of Canlin Limited.

Reference is made to the caption "Particulars of Matters To Be Acted Upon" for full disclosure of the interest of Mr. Frederick A. Litwin in the transaction being considered.

#### FINANCIAL STATEMENTS

Financial statements of the Company, Canlin Limited and Erie Diversified Industries Limited as at June 30th, 1970 together with a pro forma Balance Sheet of Canlin Limited giving effect to the foregoing transaction are included as Appendix "B" to this Information Circular.

#### SANCTION OF RESOLUTION

On July 31st, 1970 the directors of the Company passed a Resolution authorizing and approving the purchase by the Company's subsidiary, Canlin Limited, of a majority interest in Erie Diversified Industries Limited. A copy of the Resolution is set out in the Notice



of Meeting enclosed herewith and Appendix "A" attached hereto.

GENERAL

The Management knows of no proposed amendment to the Resolution nor of any other matters to come before the meeting other than the matter referred to in the Notice of Meeting. However, if any other matters which are not now known to the Management should properly come before the meeting, the accompanying proxy will be voted on such matters in accordance with the best judgment of the person voting the proxy.

BY ORDER OF THE BOARD,

"RAYMOND FRANK WRIGHT",  
Secretary-Treasurer.

DATED at Toronto, this 24th day of August, 1970.

APPENDIX "A"

"RESOLVED that:

1. The acquisition by the Company's subsidiary, Canlin Limited ("Canlin") of One Hundred and Twenty-Seven Thousand (127,000) common and/or Class "A" shares of Erie Diversified Industries Limited ("Erie"), One Hundred and Ten Thousand (110,000) of which will be common voting shares of Erie from Mr. Frederick A. Litwin pursuant to an Agreement of Purchase and Sale between the above-mentioned parties dated the 31st day of July, 1970 is hereby approved together with the said Agreement dated the 31st day of July, 1970 on the following conditions contained therein:
  - (a) The purchase price for the said shares is to be Five (\$5.00) Dollars per share (common or Class "A") representing an aggregate price of Six Hundred and Thirty-Five Thousand (\$635,000.00) Dollars payable as follows:
    - (i) Fifteen (15%) per cent by way of deposit forthwith upon the execution of the Agreement;
    - (ii) Two Hundred and Fifty Thousand (\$250,000.00) Dollars (less the 15% deposit) on the closing of the transaction which shall take place within Twenty-Four (24) hours of the later of the approval by the shareholders of the Company or the acceptance of notice for filing by The Toronto Stock Exchange;
    - (iii) The balance of Three Hundred and Eighty-Five Thousand (\$385,000.00) Dollars shall be secured by an Eight and One-half (8 1/2%) per cent, 10 year, redeemable, convertible subordinated debenture of Canlin Limited secured by a floating charge on certain of the assets of Canlin and shall be redeemable at the rate of Twenty-Five Thousand (\$25,000.00) Dollars annually, commencing Five (5) years after the date of the debenture and can be repaid in any amount or amounts at any time or times without notice or bonus; the debenture shall be convertible at the option of the Vendor into equal numbers of common and Class "A" shares of the Company (Quinte) at a conversion rate of Four Dollars and Fifty Cents (\$4.50) per share (common or Class "A") after three (3) years from the closing of the transaction; the Company (Quinte) shall guarantee the obligations of Canlin pursuant to the said agreement, including all terms of the debenture and agrees to take such steps as may be necessary to make the appropriate number of common and/or Class "A" shares of the Company (Quinte) available for conversion under the terms of the debenture.
2. Any two directors and/or officers of the Company be and they are hereby authorized and directed to execute and deliver under the corporate seal of the Company or otherwise all such other documents and instruments and to do all such acts and things as in their opinion may be necessary or desirable in connection with the purchase by Canlin Limited of the said One Hundred and Twenty-Seven Thousand (127,000) shares of Erie Diversified Industries Limited."

QUINTE MILK PRODUCTS LIMITED  
Toronto, Ontario

BALANCE SHEET  
As at June 30, 1970  
(with comparative figures at June 30, 1969)

	<u>1970</u>	<u>1969</u>
<u>ASSETS</u>		
<u>Current Assets</u>		
Cash	3,661	64,856
Investment certificates	-	100,000
Accounts receivable	109,626	59,758
Balance due on sale of shares (Note 3c)	105,000	-
Inventories	72,170	82,266
Prepaid expenses	30,914	11,586
	<u>321,371</u>	<u>318,466</u>
<u>Fixed Assets</u>		
Land, Buildings, & equipment - cost	1,103,459	1,106,664
less: accumulated depreciation	726,733	687,220
	<u>376,726</u>	<u>419,444</u>
<u>Investments</u> - Canlin Limited - at cost (Note 1)	<u>1,022,850</u>	<u>-</u>
	<u>1,720,947</u>	<u>737,910</u>
<u>LIABILITIES</u>		
<u>Current Liabilities</u>		
Bank advances secured by receivables	75,000	-
Accounts payable & accrued liabilities	284,350	158,759
Note payable - 8%, due April 6, 1971	188,910	-
Due currently on long term debt	59,000	-
	<u>607,260</u>	<u>158,759</u>
<u>Long Term Debt</u> (Note 2)	360,050	247,000
<u>SHAREHOLDERS EQUITY</u>		
<u>Capital Stock</u> (Note 3)		
Authorized		
500,000 Participating Class A non-voting shares without par value		
500,000 Common shares without par value		
Issued (Note 1)		
326,360 Class A shares )		
148,125 Common shares )	805,963	244,843
<u>Retained Earnings</u>		
Balance January 1,	26,128	135,695
Deduct net loss for the period	84,654	48,387
Balance as at June 30	<u>(58,526)</u>	<u>87,308</u>
<u>Contributed Surplus</u>	<u>6,200</u>	<u>-</u>
Net Shareholders' equity	<u>753,637</u>	<u>332,151</u>
	<u>1,720,947</u>	<u>737,910</u>



QUINTE MILK PRODUCTS LIMITED  
Toronto, Ontario

Statement of Income  
For the six months ended June 30, 1970  
(with comparative figures for 1969)

	<u>1970</u>	<u>1969</u>
Sales	722,059	743,219
Cost of raw materials	590,192	587,611
Manufacturing expenses	133,851	122,477
Merchandising & administrative expenses	48,639	50,999
Depreciation	31,358	30,533
Interest on long term debt	2,927	7,201
	<u>806,967</u>	<u>798,821</u>
<u>Net loss from plant operations</u>	84,908	55,602
<u>Other Income</u>		
Rent & interest - net	(3,699)	7,215
Computer & management fees - net	3,953	-
	<u>254</u>	<u>7,215</u>
<u>Net Loss for the period</u>	<u>84,654</u>	<u>48,387</u>

QUINTE MILK PRODUCTS LIMITED  
Toronto, Ontario

Statement of Source & Application of Funds  
For the six month period ended June 30, 1970  
(with comparative figures for 1969)

	<u>1970</u>	<u>1969</u>
Working Capital at Beginning of Period (Deficiency)	(7,983)	244,595
<u>Sources of Funds</u>		
Proceeds from Long Term debt	300,000	35,000
less: portions due currently	<u>30,000</u>	<u>-</u>
	270,000	35,000
Issue of treasury shares for cash	<u>105,000</u>	<u>-</u>
	<u>375,000</u>	<u>35,000</u>
<u>Application of Funds</u>		
Operations		
Net loss for the period	84,654	48,387
less: depreciation which does not involve current funds	<u>31,358</u>	<u>30,533</u>
	53,296	17,854
Fixed Asset Additions	18,381	102,034
Payments on long term debt	14,500	-
Investment in Canlin Limited	1,022,850	-
less: amount provided through share exchange offer	<u>(456,120)</u>	<u>-</u>
	<u>566,730</u>	
	<u>652,907</u>	<u>119,888</u>
Decrease in working capital	<u>277,907</u>	<u>84,888</u>
Working capital at end of period (Deficiency)	<u>(285,890)</u>	<u>159,707</u>

QUINTE MILK PRODUCTS LIMITED  
Toronto, Ontario

Notes to Financial Statements

Note 1. Canlin Limited

The Company acquired 12,594 shares (50.4%) of the outstanding capital stock of Canlin Limited on April 6, 1970 for \$566,730, paying \$377,820 in cash and giving an 8% promissory note payable April 6, 1971. Pursuant to a share exchange offer expiring on July 1, 1970, the Company acquired an additional 10,136 shares (40.5%); this required the issuance of 101,360 class A shares at \$4.50 per share.

Note 2. Long Term Debt

Debenture, Ontario Development Corporation, non-interest bearing, forgivable at the option of the lender.	\$55,800
8½% Debenture, Bank of Nova Scotia, repayable \$7,250 quarterly	63,250
8½% Subordinated Redeemable Sinking Fund Debenture, repayable \$30,000 annually	300,000
	419,050
Less: principal included in current liabilities	59,000
	<u>360,050</u>

Note 3. Changes in Share Capital

- a) By supplementary letters patent dated February 25th, 1970, the companies Common shares were split 5 for 1 and the class A shares were subdivided and reclassified on the basis of 3 new class A shares and 2 new common shares for each old class A share.
- b) Pursuant to the share exchange offer to Canlin shareholders, the Company issued 101,360 class A shares at \$4.50 each for a total value of \$456,120
- c) Pursuant to an underwriting agreement dated June 9, 1970, between Punta Funding Corporation Limited and Grant Johnston Limited, the company issued 75,000 class A shares to Punta for \$105,000. The underwriting agreement closed in July 1970 and accordingly the \$105,000 is shown in current assets as at June 30, 1970.
- d) Shares have been reserved for issuance as follows:

	<u>Class A</u>	<u>Common</u>
Share Purchase Warrants (exercisable at \$1.40 per share until April 1, 1975 and thereafter at \$2.00 per share until April 1, 1980)	75,000	250,000



QUINTE MILK PRODUCTS LIMITED  
and subsidiary companies

Consolidated Balance Sheet  
As at June 30, 1970

<u>ASSETS</u>	<u>1970</u>	<u>1969</u>
<u>Current Assets</u>		
Cash	4,261	64,856
Accounts receivable	1,480,550	59,758
Balance due on sale of shares (Note 3c)	105,000	-
Short term investments - cost (Note 6d)	273,937	100,000
Inventories	584,303	82,266
Prepaid expenses & deposits	110,558	11,586
Income tax refundable	14,408	-
	<hr/> 2,573,017	<hr/> 318,466
 <u>Fixed Assets</u>		
Land, buildings & equipment - at cost	2,775,138	1,106,664
less: accumulated depreciation	2,188,549	687,220
	<hr/> 586,589	<hr/> 419,444
 <u>Investments</u>		
Diversified Crops Limited (Note 5)	221,173	
Mortgages receivable - (Note 4)	298,182	
Erie Diversified Industries Ltd - at cost (Note 6)	95,063	
Other	20,500	
	<hr/> 634,918	<hr/> -
 <u>Deferred Income Tax Charge (Note 7)</u>	<hr/> 13,000	<hr/> -
	<hr/> <u>3,807,524</u>	<hr/> <u>737,910</u>

	<u>1970</u>	<u>1969</u>
<u>Liabilities</u>		
<u>Current Liabilities</u>		
Bank advances - secured	564,452	-
Accounts payable & accrued liabilities	734,223	158,759
Note payable, 8%, due April 6, 1971	188,910	-
Due currently on long term debt	59,000	-
	<u>1,546,585</u>	<u>158,759</u>
<u>Long Term Debt - Note 2</u>	360,050	247,000
<u>Minority Interest in Net Assets of Consolidated Subsidiary Company</u>	<u>195,309</u>	<u>-</u>
	<u>2,101,944</u>	<u>405,759</u>
 <u>Shareholders Equity</u>		
<u>Capital Stock - Note 3</u>		
Authorized:		
500,000 Participating class A non-voting shares without par value		
500,000 Common shares without par value		
Issued:		
326,360 Class A shares )	805,963	244,843
148,125 Common shares )		
<u>Retained Earnings - per statement</u>	116,669	87,308
<u>Contributed Surplus</u>	6,200	-
<u>Excess of Book Value of net assets of Canlin over cost of shares acquired</u>	<u>776,748</u>	<u>-</u>
	<u>1,705,580</u>	<u>332,151</u>
	<u>3,807,524</u>	<u>737,910</u>

QUINTE MILK PRODUCTS LIMITED  
Consolidated Income Statement  
For the six months ended June 30, 1970

	<u>1970</u>	<u>1969</u>
Sales & fees	2,967,364	750,434
Cost of materials, labour & factory expenses	2,792,823	710,088
Selling and Administrative expenses	165,917	50,999
Depreciation	44,152	30,533
Interest on long term debt	7,927	7,201
Past service pension costs	7,070	-
	<hr/> 3,017,889	<hr/> 798,821
Loss on operations	50,525	48,387
Gain on disposal of fixed Assets (Note 4)	143,790	-
Income tax credit (Note 8)	<hr/> 14,603	<hr/> -
Net income before minority interests	107,868	(48,387)
Less minority interest	<hr/> 17,327	<hr/> -
Net income for the six months	<hr/> <u>90,541</u>	<hr/> <u>(48,387)</u>

Consolidated Statement of Retained Earnings  
For the six months ended June 30, 1970

Balance - Beginning of Year	26,128	135,695
Net earnings for the period	<hr/> 90,541	<hr/> (48,387)
Balance as at June 30, 1970	<hr/> <u>116,669</u>	<hr/> <u>87,308</u>



QUINTE MILK PRODUCTS LIMITED  
and subsidiary companies  
Consolidated Statement of Source and Application of Funds  
For the six months ended June 30, 1970  
(with comparative figures for 1969)

	<u>1970</u>	<u>1969</u>
<u>Working Capital at beginning of period</u>	(7,983)	244,595
<u>Sources of Funds</u>		
From operations		
Net consolidated income	90,541	
Add, charges not involving current funds		
- depreciation	44,152	
- Minority interest	17,327	
Less: gain on disposal of fixed assets	143,790	
Cash flow from operations	8,230	-
Issue of shares for cash	105,000	-
Issue of shares for shares of Canlin (Note 3b)	456,120	-
Proceeds from long term debt net of current portion	270,000	35,000
Minority interest at Acquisition	177,982	-
Sale of fixed assets	250,000	-
	<u>1,267,332</u>	<u>35,000</u>
<u>Application of Funds</u>		
Operations		
Net loss for the period	-	48,387
less: depreciation which does not		
involve current funds	-	30,533
	-	<u>17,854</u>
Acquisition of Shares of subsidiary		
company less working capital at date of acquisition	199,374	-
Purchase of Fixed Assets	19,043	102,034
Payments on long term debt	14,500	-
	<u>232,917</u>	<u>119,888</u>
<u>Increase (Decrease) in working capital</u>	<u>1,034,415</u>	<u>(84,888)</u>
<u>Working capital at end of period</u>	<u>1,026,432</u>	<u>159,707</u>

QUINTE MILK PRODUCTS LIMITED  
and subsidiary companies

Notes to the financial statements

NOTE 1. Basis of Consolidation

The consolidated financial statements include the accounts of subsidiary Companies as follows:

- a) Quinte Creameries Limited - 100% non-operative
- b) Canlin Limited - 91% from April 6, 1970

NOTE 2. Long Term Debt

Debenture, Ontario Development Corporation, non-interest bearing, forgivable at the option of the lender \$55,800.

8½% Debenture, Bank of Nova Scotia, repayable \$7,250 quarterly 63,250.

8½% Subordinated Redeemable Sinking Fund Debenture, repayable \$30,000 annually 300,000.

419,050.

Less: principal included in current liabilities 59,000.

360,050.

NOTE 3. Changes in Share Capital

- a) By supplementary letters patent dated February 25th, 1970, the companies Common shares were split 5 for 1 and the class A shares were subdivided and reclassified on the basis of 3 new class A shares and 2 new common shares for each old class A share.
- b) Pursuant to the share exchange offer to Canlin shareholders, the company issued 101,360 class A shares at \$4.50 each for a total value of \$456,120.
- c) Pursuant to an underwriting agreement dated June 9, 1970, between Punta Funding Corporation Limited and Grant Johnston Limited, the company issued 75,000 class A shares to Punta for \$105,000. The underwriting agreement closed in July 1970 and accordingly the \$105,000 is shown in current assets as at June 30, 1970.
- d) Shares have been reserved for issuance as follows:

	<u>Class A</u>	<u>Common</u>
Share Purchase Warrants (exercisable at \$1.40 per share until April 1, 1975 and thereafter at \$2.00 per share until April 1, 1980)	75,000	250,000

NOTE 4. Sale of Montreal Land

On April 7, 1970, Canlin Limited sold its Montreal land for the sum of \$250,000, receiving \$25,000 on account with the balance payable April 6, 1975. No interest is payable on the outstanding balance. This land is hypothecated in favour of Canlin Limited while the balance is outstanding.



As the deed of sale calls for the levelling of these buildings by April 6, 1975, the net gain on disposal has been calculated as follows:

Land - Selling price.....	\$250,000
- Cost.....	<u>47,231</u>
	\$202,769
Buildings-Projected book value as at April 6, 1975 after providing normal depreciation.....	<u>58,979</u>
Net gain on disposal.....	\$143,790

Accumulated depreciation of buildings has been increased by \$58,979 to give effect to the revision in the assets remaining useful life to the Company.

NOTE 5. Diversified Crops Limited

The Company has acquired at a cost of \$10,000, a 50% interest in Diversified Crops Ltd., a company incorporated under the laws of the Province of Alberta.

Canlin Limited has also advanced the sum of \$80,000 against the purchase of \$206,474 principal amount of Diversified Crops Ltd. Series "A" Debentures. The balance of \$126,474 has been included in current liabilities as at June 30, 1970 and is to be advanced during the ensuing year. These 9% debentures, maturing August 15, 1978, are secured by a first floating charge on all property and assets of Diversified Crops Ltd.

NOTE 6. Erie Diversified Industries Limited

- a) During May & June 1970, Canlin purchased through the Toronto Stock Exchange, 9,650 common and 6,450 class A shares of Erie Diversified Industries Ltd. at a cost of \$95,063.
- b) Canlin Limited has entered into an agreement to purchase a further 110,000 common and 20,000 class A shares at \$5.00 per share payable \$250,000 in cash and \$385,000 in a 10 year 8½% debenture. This purchase will bring Canlin's ownership in Erie common stock up to 52.7%.
- c) The cost of Canlin's investment in Erie will total \$730,063 and as at June 30, 1970 the market value of this investment was approximately \$846,576.
- d) During June, 1970, the company purchased \$50,000 principal amount of Erie's 8% convertible debentures at a cost of \$32,500, yielding 12.3%, as a short term investment.

NOTE 7. Deferred Income Tax

The deferred Income Tax charge results from claiming book depreciation in excess of amounts allowable for income tax purposes.

NOTE 8. Income Tax Credit

The tax deduction arising from the adjustment of building costs is greater than the tax expense in the three month period resulting in a net income tax credit for the six month period.





CANLIN LIMITED  
BALANCE SHEET  
As at June 30, 1970  
(with comparative figures for 1969)  
and proforma June 30, 1970 - note

	<u>ASSETS</u>	<u>1970</u>	<u>Proforma</u> <u>1970</u>	<u>1969</u>
<u>Current Assets</u>				
Cash & Bank balances		600	600	-
Accounts receivable		1,370,924	1,370,924	1,561,886
Short term investments - cost - note 5		273,937	173,937	-
Inventories		512,133	512,133	576,074
Other current assets		79,644	79,644	11,754
Income tax refundable		14,408	14,408	-
		<u>2,251,646</u>	<u>2,151,646</u>	<u>2,149,714</u>
<u>Fixed Assets</u>				
Buildings & Equipment - cost		1,671,679	1,671,679	1,666,545
less: accumulated depreciation		<u>1,461,816</u>	<u>1,461,816</u>	<u>1,348,592</u>
		209,863	209,863	317,953
<u>Investments</u>				
Diversified Crops Ltd.		221,173	221,173	-
Mortgages receivable		298,182	298,182	74,110
Erie Diversified Industries Ltd. (Notes 1-2-4)		95,063	730,063	-
Other		<u>20,500</u>	<u>20,500</u>	<u>20,500</u>
		634,918	1,269,918	94,610
<u>Deferred Income Tax Charge</u>		<u>13,000</u>	<u>13,000</u>	<u>-</u>
	<b>TOTAL ASSETS</b>	<u><u>3,109,427</u></u>	<u><u>3,644,427</u></u>	<u><u>2,562,277</u></u>

	Actual June 30 1970	Pro-Forma June 30 1970	Actual June 30 1969
<u>Liabilities</u>			
<u>Current Liabilities</u>			
Bank indebtedness	489,452	639,452	189,214
Accounts payable & accruals	449,873	449,873	321,270
Income tax payable	-	-	61,538
Due currently on long term debt	-	38,500	-
	939,325	1,127,825	572,022
Debenture Payable (Note 3)	-	346,500	-
Deferred Income Tax	-	-	23,000
	939,325	1,474,325	595,022
<u>Shareholders Equity</u>			
Capital Stock			
Authorized:			
• 50,000 shares of \$20.00 each .			
Issued and Fully Paid			
25,000 shares	500,000	500,000	500,000
Retained Earnings - per statement	1,670,102	1,670,102	1,467,255
Total Shareholders Equity	2,170,102	2,170,102	1,967,255
	3,109,427	3,644,427	2,562,277

CANLIN LIMITED  
Statement of Source and Application of Funds  
For the two months Ended June 30, 1970  
(with comparative figures for 1969)

	<u>1970</u>	<u>1969</u>
<u>Working Capital at beginning of period</u>	1,392,022	1,584,340
<u>Source of Funds</u>		
<u>Operations</u>		
Net income for the period	7,833	8,901
Add depreciation which does not involve current funds	9,045	9,045
	<u>16,878</u>	<u>17,946</u>
 <u>Application of Funds</u>		
Payment of dividends	-	18,750
Purchase of fixed assets	663	5,844
Increase in mortgages receivable	853	-
Increase in investments- purchase of shares of Erie Diversified Industries Limited	95,063	-
	<u>96,579</u>	<u>24,594</u>
Decrease in working capital	<u>79,701</u>	<u>6,648</u>
 <u>Working capital as at June 30</u>	 <u>1,312,321</u>	 <u>1,577,692</u>



CANLIN LIMITED  
Statement of Income  
For the two months ended June 30, 1970  
(with comparative figures for 1969)

	<u>1970</u>	<u>1969</u>
Sales	1,428,132	1,591,401
Material, labour & factory expenses	1,324,023	1,494,555
Selling and administrative expenses	77,381	67,200
Past service pension contributions	5,050	4,400
Depreciation	9,045	9,045
	<u>1,415,499</u>	<u>1,575,200</u>
Operating Income	12,633	16,201
Estimated taxes on income	<u>4,800</u>	<u>7,300</u>
Net income for the period	<u>7,833</u>	<u>8,901</u>

Statement of Retained Earnings

Balance at May 1,	1,662,269	1,477,104
Net income	<u>7,833</u>	<u>8,901</u>
	1,670,102	1,486,005
Dividends paid	<u>-</u>	<u>18,750</u>
Balance at June 30,	<u>1,670,102</u>	<u>1,467,255</u>

CANLIN LIMITED  
NOTES TO FINANCIAL STATEMENTS OF JUNE 30, 1970

NOTES:

1. By agreement dated August 1, 1970, Canlin Limited will acquire 127,000 Common and A shares of Erie Diversified Industries Ltd. at \$5.00 per share payable by \$250,000 in cash and \$385,000 in a 10 year 8½% debenture. The vendor agrees to deliver not less than 110,000 common shares as part of the shares purchased.
2. Canlin Limited has also acquired by purchases through the Toronto Stock Exchange 9,650 Common and 6,450 A shares of Erie for \$95,063 in cash. With the 110,000 Common shares being acquired by agreement, Canlin will own 119,650 Common shares, or 52.7% of the outstanding common stock of Erie.
3. The debenture issued to the vendor is repayable over 10 years at 8½% interest per annum, but the vendor has agreed to waive 75% of the interest for the first five years. Canlin has the option of redeeming the debenture in whole or in part at any time without notice or bonus. The debentures are convertible after three years at the option of the vendor into Quinte Milk Products Ltd. shares at \$4.50 per share - any such conversion to be made at the rate of 1 Common and 1A share for each \$9.00 of debenture principal.
4. The investment in Erie is shown at cost. Both classes of shares are listed on the Toronto Stock Exchange and as at June 30, 1970, the market value of the shares was approximately \$96,200 & \$846,576 respectively.
5. During June, 1970, the Company purchased \$50,000 principal amount of Erie's 8% convertible debentures at a cost of \$32,500, yielding 12.3%, as a short term investment.
6. Canlin Limited has provided a guarantee to the Bank of Montreal in the amount of \$250,000 in support of Diversified Crops Ltd.'s line of credit, such guarantee to be secured by a Diversified Crops Ltd. Series "B" Debenture. Canlin Limited is also a 50% joint indemnitor in respect of grain elevator licenses issued to Diversified Crops Ltd., requiring bonding in the amount of \$300,000.





ERIE DIVERSIFIED INDUSTRIES LIMITED

And Subsidiary Companies

CONSOLIDATED BALANCE SHEET AS AT JUNE 30, 1970

(unaudited)

A S S E T S

1 9 7 0      1 9 6 9  
\$                      \$

CURRENT ASSETS

Cash	20,059	67,834
Accounts Receivable (notes 2 and 8)	1,045,450	1,259,936
Notes Receivable (note 8)	58,334	
Inventories - at the lower of cost or net realizable value (notes 2 and 8)	1,420,817	1,655,209
Prepaid expenses	<u>41,890</u>	<u>63,905</u>
	<u>2,586,550</u>	<u>3,046,884</u>

FIXED ASSETS (note 8)

	C o s t	Accumulated Depreciation		
	\$	\$		
Land	<u>24,116</u>		24,116	35,210
Buildings, machinery, equipment, furniture and fixtures	589,973	368,469	221,504	478,173
Leasehold improvements	<u>98,281</u>	<u>8,279</u>	<u>90,002</u>	<u>58,800</u>
	<u>712,370</u>	<u>376,748</u>	<u>335,622</u>	<u>572,183</u>

OTHER ASSETS

Excess of cost of investment in shares of subsidiaries over net book value at date of acquisition	659,118	583,451
Goodwill acquired on the purchase of Lanark Furniture Company	800,000	800,000
Notes receivable (note 8)	166,666	
Deferred cost of borrowing, less amortization	74,242	
Advance to a franchisee	42,000	
Mortgages and sundry	<u>12,751</u>	<u>10,949</u>
	<u>1,754,777</u>	<u>1,394,400</u>

  
Director

  
Director

) ON BEHALF

)

)

) OF THE BOARD

4,676,949      5,013,467

L I A B I L I T I E S  
(unaudited)

	1 9 7 0 \$	1 9 6 9 \$
CURRENT LIABILITIES		
Bank advances - secured (note 2)	767,948	935,294
Accounts payable and accrued liabilities	732,171	1,164,959
Income and other taxes payable	27,539	129,466
Current portion of long-term debt	<u>100,000</u>	<u>20,000</u>
	1,627,658	2,249,719
LONG-TERM DEBT (note 3)	1,262,109	1,074,779
MINORITY INTEREST IN NET ASSETS OF CONSOLIDATED SUBSIDIARY COMPANIES	140,341	55,765
	<u>3,030,108</u>	<u>3,380,263</u>

S H A R E H O L D E R S ' E Q U I T Y

CAPITAL STOCK (note 4)

Authorized -		
450,000 Class A \$.20 non-cumulative, non-voting, non-redeemable, fully participating preference shares without par value		
300,000 common shares without par value		
Issued and fully paid -	514,737	514,737
145,000 Class A preference shares	<u>195,863</u>	<u>195,863</u>
227,060 common shares	710,600	710,600

RETAINED EARNINGS (note 7)	<u>936,241</u>	<u>922,604</u>
	<u>1,646,841</u>	<u>1,633,204</u>
	<u>4,676,949</u>	<u>5,013,467</u>

ERIE DIVERSIFIED INDUSTRIES LIMITED

And Subsidiary Companies

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

(unaudited)

FOR THE SIX MONTHS ENDED JUNE 30, 1970

WITH COMPARATIVE FIGURES FOR THE TWELVE MONTH PERIOD ENDED DECEMBER 31, 1968 & 1969

	1 9 7 0	(Note 10) Dec. 31 1 9 6 9	(Note 10) Dec. 31 1 9 6 8
	\$	\$	\$
BALANCE - beginning of period	907,221	884,840	838,081
- net profit for the period	<u>29,020</u> 936,241	<u>62,543</u> 947,383	<u>70,759</u> 908,840
- dividends paid	<u>-</u>	<u>40,162</u>	<u>24,000</u>
BALANCE - end of period	<u>936,241</u>	<u>907,221</u>	<u>884,840</u>



ERIE DIVERSIFIED INDUSTRIES LIMITED

And Subsidiary Companies

CONSOLIDATED STATEMENT OF EARNINGS

(unaudited)

FOR THE SIX MONTHS ENDED JUNE 30, 1970

WITH COMPARATIVE FIGURES FOR THE TWELVE MONTH PERIODS ENDED DECEMBER 31, 1968 AND 1969

	1 9 7 0	Dec. 31 1 9 6 9 (Note 10)	Dec. 31 1 9 6 8 (Note 10)
	\$	\$	\$
SALES	2,544,953	7,136,384	3,142,916
COST OF SALES	<u>1,823,764</u>	<u>6,091,633</u>	<u>2,733,899</u>
GROSS PROFIT	721,189	1,044,751	409,017
OTHER INCOME	<u>-</u>	<u>107,945</u>	<u>-</u>
	721,189	1,152,696	409,017
SELLING AND ADMINISTRATIVE EXPENSES	<u>672,599</u>	<u>884,771</u>	<u>276,013</u>
	48,590	267,925	133,004
PROVISION FOR INCOME TAXES	<u>-</u>	<u>128,911</u>	<u>62,245</u>
	48,590	139,014	70,759
MINORITY INTEREST	<u>19,570</u>	<u>9,971</u>	<u>-</u>
EARNINGS BEFORE EXTRAORDINARY ITEM	29,020	129,043	70,759
EXTRAORDINARY ITEM			
Provision for loss on disposal of Wood Products Division less income taxes applicable thereto (note 8)	<u>-</u>	<u>66,500</u>	<u>-</u>
NET EARNINGS FOR THE PERIOD	<u>29,020</u>	<u>62,543</u>	<u>70,759</u>

The following items are included  
in the foregoing:

	\$		
Depreciation	25,077	117,920	49,591
Interest on long-term debt	27,725	24,700	4,555
Remuneration of directors and senior officers	50,000	55,650	
Amortization of deferred cost of borrowing	1,875	1,492	
Other income includes a gain arising from a change in method of measur- ing inventory quantities		100,750	
Reorganization and acquisition costs			29,426

ERIE DIVERSIFIED INDUSTRIES LIMITED

And Subsidiary Companies

CONSOLIDATED STATEMENT OF SOURCE

AND USE OF WORKING CAPITAL

FOR THE SIX MONTHS ENDED JUNE 30, 1970

SOURCE OF WORKING CAPITAL	\$
Net earnings for the period	29,020
Charges not requiring an outlay of funds -	
Depreciation and amortization	27,577
Minority interest in net earnings	<u>19,570</u>
Cash flow from operations	76,167
Sale of fixed assets - net of additions	295,561
Less: long-term note receivable from sale (note 8)	<u>(166,666)</u>
	<u>205,062</u>
USE OF WORKING CAPITAL	
Decrease in long-term debt	112,000
Advance to a franchisee	565
Increase in mortgages and sundry assets	<u>1,972</u>
	<u>114,537</u>
INCREASE IN WORKING CAPITAL	90,525
WORKING CAPITAL - BEGINNING OF PERIOD	<u>868,367</u>
WORKING CAPITAL - END OF PERIOD	<u>958,892</u>



ERIE DIVERSIFIED INDUSTRIES LIMITED

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the Six Months Ended June 30, 1970

(unaudited)

1. BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of all subsidiary companies, as follows:

Wholly owned -

H.A. Ball & Sons Limited  
Bopal Developments Limited  
Esskay Floors Limited  
Lanark Furniture (1969) Limited  
Twilight Investments Limited

80% owned -

Stitsky's Textile Centre (1969) Limited and its subsidiaries,  
Stitsky's Textile Centre Limited, Cedarbrae Fabrics & Drapery Limited  
and Nortown Fabric & Drapery Centre Limited, which were amalgamated  
on July 6th, 1970 under the name Stitsky's Textile Centres Limited.

2. BANK ADVANCES

Accounts receivable and inventories are pledged as security for bank advances.

3. LONG-TERM DEBT

Non-interest bearing notes secured by shares of Stitsky's Textile  
Centre (1969) Limited due -

May 29, 1971.....	\$50,000
May 29, 1972.....	85,000
	<u>135,000</u>
Less: Loan receivable deductible from 1972 payment	<u>48,646</u>
	<u>86,354.</u>

Non-interest bearing redeemable debenture secured by shares of  
Lanark Furniture (1969) Limited due -

May 31, 1971.....	50,000
July 31, 1971 convertible at the rate of 49½ Class A preference shares for each \$1,000 principal amount.....	400,000
May 31, 1974 convertible at the rate of 49½ Class A preference shares for each \$1,000 principal amount.....	<u>100,000</u>
	<u>550,000</u>



3. LONG-TERM DEBT (cont'd)

\$

6% note payable, due February 13, 1974 secured by mortgages on fixed assets of H.A. Ball & Sons Limited.....	220,000
8% subordinated convertible redeemable sinking fund debenture, due October 1, 1989. Sinking fund payments sufficient to retire \$25,000 principal amount on October 1 in each of the years 1974 to 1988 inclusive are required. Convertible at the rate of 80 Class A preference shares for each \$1,000 principal amount to October 1, 1979.....	500,000
Other.....	5,755
	<u>1,362,109</u>
Less: Portion due within one year.....	<u>100,000</u>
	<u><u>1,262,109</u></u>

4. CAPITAL STOCK

- (a) There have been no changes in authorized and issued and outstanding capital stock during 1970.  
 (b) Shares have been reserved for issuance as follows:

	<u>Class A Preference</u>	<u>Common</u>
Executive and employee stock option plan (note 5).....	6,310	11,350
8% subordinated redeemable debenture, convertible at the rate of 80 Class A preference shares for each \$1,000 principal amount (note 3).....	40,000	-
Non-interest bearing convertible redeemable debenture (note 3) - exercisable at various dates prior to May 30, 1974.....	24,750	-
	<u>71,060</u>	<u>11,350</u>

5. STOCK OPTION PLAN

Options to purchase 4,750 Class A preference shares and 11,040 common shares have been granted to certain officers and executives, for terms of up to ten years at 90% of the market value of the shares as at the date granted. The option prices range from \$10.00 to \$20.70.

6. LONG-TERM LEASES

Minimum annual rentals under leases of more than three years' duration are..... \$160,500

7. DIVIDEND RESTRICTION

The trust indenture relating to the 8% convertible redeemable debenture provides that no dividend or other distribution on account of the company's capital stock will be declared or paid, if, after such payment, the consolidated shareholders' equity would be less than \$1,600,000.

8. DISPOSAL OF WOOD PRODUCTS DIVISION

In May 1970 the plant and equipment of the Wood Products Division were sold to Dorsan Developments Limited for \$400,000, \$150,000 in cash with the balance due in equal annual instalments in May 1971, 1972 and 1973. Real estate and chattel mortgages secure these notes receivable, which bear interest at 10% per annum.

Negotiations are in progress for sale of remaining inventories at the Division. The hardwoods market has softened appreciably since May and the provision of \$140,000 made during 1969 for possible losses on disposal of the Division, including losses incurred during the terminal operating period, will not be sufficient.

9. CONTINGENT LIABILITY

The company is contingently liable to the Industrial Development Bank in connection with a \$20,000 balance of a first mortgage on certain assets of the Wood Products Division, which has been assumed by Dorsan Developments Limited.

- 10 The figures presented for 1969 represent the twelve month period ended December 31, 1969. The 1968 figures represent a twelve month period ended December 31, 1968, combining the results for the six month fiscal period ended December 31, 1968 and one-half of the results of the twelve month fiscal period ended June 30, 1968.